

ADJUSTMENT BUDGET REPORT

ITEM

***BUDGET STEERING COMMITTEE (BSC)/SECTION 80 COMMITTEE
FINANCE***

***DIRECTORATE BUDGET AND TREASURY: ADJUSTMENT BUDGET
2013/2014 FINANCIAL YEAR.***

5/1/1 – 2013/2014

PURPOSE:

To place the report on the Adjustments Budget before the Section 80 Committee Finance for consideration and processing to the Municipal Council for approval.

BACKGROUND:

Section 72 of the Local Government Municipal Finance Management Act, No. 56 of 2003 (MFMA) requires that the accounting officer must by 25 January of each year, assess the performance of the municipality during the first half of the financial year and make a recommendation as to whether an adjustments budget is necessary and recommending a revised projection for revenue and expenditure to the extent that may be applicable.

The mid-year budget and performance assessment for 2013/2014 was submitted to the Executive Mayor on 17 January 2014 and it was recommended to the Executive Mayor that an adjustment budget be compiled. The mid-year budget and performance assessment is attached as **Annexure 2**, and is submitted for cognisance.

Attached as **Annexure 1**, is the adjustments budget of the WRDM for the 2013/2014 financial year, prepared in the new format as prescribed by National Treasury in the budget and reporting regulations that were promulgated on 17 April 2009 as per Government Gazette no. 32141.

The adjustments budget is tabled in terms of MFMA Section 28. The Municipal Budget and Reporting Regulations 23 (1) require that municipal council must consider the Adjustments Budget not later than 28 February of the current year (2014).

SUMMARY: WEST RAND DISTRICT MUNICIPALITY
(CONSOLIDATED)

<u>Description</u>	<u>Budget (R'000)</u>	<u>Adjustment (R'000)</u>
Capital expenditure	R 5,360	R 2,976
Operating revenue	R258, 989	R276, 407
Operating expenditure	R253, 629	R273, 431
Surplus	<u>R 0</u>	<u>R 0</u>
Total (capex and opex)	<u>R258 989</u>	<u>R276 407</u>

1. CAPITAL EXPENDITURE

The adjusted capital expenditure decreased by R 2 384 Million from R 5 360 to R 2 976 Million. The decrease in capital expenditure for the 2013/2014 financial year is due to:

- a. The reclassification of street lights budget of R3 million from capital expenditure (CAPEX) to operational expenditure (OPEX) as it does not meet the recognition criteria of Generally Recognized Accounting Practices (GRAP) 17 Standard. The expenditure (costs) incurred for the street lights will be capitalized and appear in the Asset Register (AR) of the local municipality where these street lights were installed.
- b. Proper Costing of Fire Engines from budget of R2 160 000 to R1 885 000 as per the contract with the service provider.
- c. The R200 000 was also availed for the CAPEX in the Political Office.

The new capital budget projects were added and are as follows:

- a. ICT Equipment's which was not in budget, but due to high demand of computers and other ICT related equipment's should be considered. The proposed budget allocation is R100 000.
- b. The proposed amended budget from Management and Board of Directors of the West Rand Development Agency (WRDA) which will be used for the upgrade of buildings and other equipment's which amounts to R790 000.

2. OPERATING REVENUE AND EXPENDITURE

Operating revenue (inclusive of accumulated funds) increased by R17, 419 million (6, 88%) from R258, 988 million to R276, 407 million. Whereas, operating expenditure increased by R19,802 million (7.80%) from R253, 629 million to R273, 431 million for the 2013/2014 financial year.

2.1 OPERATING REVENUE

The increase/decrease in revenue is mainly due to the following reasons:

- a. **Services Charges:** An increase as a result of reclassification of an amount of R280 000 from other income to services charges. This is to be in line with the classification of the financial statements.
- b. **Rental of facilities:** increased as a result of error of classification with an amount of R1, 413 million from other revenue. This is to be in line with the classification of the financial statements.
- c. **Interest on external investments:** increased by (45.74%) which impacted on the original approved budget from R3, 500 to R5, 101 Million. This is as a result of the performance of short term investment of the municipality as of the 31 December 2013 from external financial services provider.
- d. **Interest on outstanding debtors:** Increase on interest on outstanding debtors of the municipality as a result of classification error from interest on external investments. This is to be in line with the classification of the financial statements.
- e. **Income from Agency Services:** As per the presentation of the financial statement EMS Grant is being presented as Income from Agency services whereas on the budget was treated as Grant Income from Provincial Government which lead to inconsistencies in terms of reporting hence the was a correction of classification from Grants received to income from Agency Services. The amount of the Grant was not changed and remained as R35, 834 Million.
- f. **Grants Received/Transfers Operating:** Grants from national and provincial treasury has been increased and this is as a results of roll-over amounts from previous year being approved by both National and Provincial treasury. The grants are as follows:

Department of Sports and Recreation (Library Grants)	R70, 477
HIV/AIDS Grant from Health Department	R15, 903
Department of Economic Development	R19, 762
Internal Audit Shared Services Local Gov.	R15, 297
Total	R121, 439

As per the Government Gazette No. 37203 of December 2013 from National Treasury a NDPG grant has been adjusted from R2,000,000 to R2,500,000 (Grants in Kind).

g. Other Income: other income has substantially increased by (42, 31%) R13, 227 million as compared to the approved original budget of R31, 255 million. The main contributors are as follows:

- Sale of refuse bags of the recycling plant as anticipated by the WRDA R2,457,000;
- Increase of Sales of Plants as anticipated by the WRDA R100 000.
- An amount of R 1,600,000 to be received from insurance company in terms of the damages of the WRDM building.
- An amount of R4, 057,000 IDC Grant anticipated by the WRDA from economic development.
- Contributions from local municipality has been increased by R2, 000,000 for the Go West Concert.

2.1 OPERATING EXPENDITURE

The increase/decrease in expenditure is mainly due to the following reasons:

- a. **Employee Related Costs:** Employee related has been reduced with an amount R6, 116,000 and this is a result of management negotiating a 4th shift with employees which will reduce a load of Sunday and Public Overtime being claimed for public safety employees.
- b. **Remuneration of Councilors:** remuneration of councilors has increased by (9.63%) as compared to the approved budget as a result of upper limits released by the minister of COGTA.

- c. Depreciation Expenses:** Increase of an amount of R325, 000 in depreciation expense from the WRDA after an allocation of Capital Budget.
- d. Finance Charges:** Reclassification of an amount of R2 624 000 for the payment of loan from finance charges to other general expenses as it does not form part of interest rather a repayment of actual loan amount owed to DBSA.
- e. Other Expenses:**

- WRDA new proposed adjustment budget on expenditures based on the anticipation that the IDC Grant will be received:

10103	Marketing	150 000
11507	Professional Fees	300 000
11520	Directors Remuneration	300 000
11901	Security Services	650 000
20103	Building Repairs	510 000
10702	Levies Electricity	179 100
12208	Stock and Raw Material	217 000
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- Below is the other general expenses that has contributed to the adjustment budget together with the reasons:

Description	Original Budget	Adjustment	Total Adjustment Budget	Reason
MEDICAL:CONTINUED MEMBERS	-	865,296	865,296	Initially not budget for
TRAINING:EMPLOYEES	742,013	400,000	1,142,013	Department Request

VEHICLES:FUEL	41,021	145,347	186,368	EXP Trend
VEHICLES:FUEL	263,704	201,075	464,779	EXP Trend
VEHICLES:FUEL	152,362	175,355	327,717	EXP Trend
VEHICLES:FUEL	212,430	171,083	383,513	EXP Trend
VEHICLES:FUEL	87,901	165,178	253,079	EXP Trend
VEHICLES:FUEL	64,461	176,675	241,136	EXP Trend
LEVIES:ELECTRICITY	1,052,200	497,455	1,549,655	EXP Trend
LEASE:VEHICLES	-	557,722	557,722	EXP Trend
LEASE:VEHICLES	-	369,039	369,039	EXP Trend
LEASE:VEHICLES	-	185,028	185,028	EXP Trend
LEASE:VEHICLES	219,100	355,987	575,087	EXP Trend
LEASE:VEHICLES	126,200	331,264	457,464	EXP Trend
LICENSES	1,203,400	596,600	1,800,000	EXP Trend
EXTERNAL AUDIT FEES	1,713,400	786,600	2,500,000	EXP Trend
PROFESSIONAL FEES: GENERAL NDPG GRANT	2,000,000	500,000	2,500,000	NT Gazzete
PROFESSIONAL FEES: GENERAL MM's Office	1,000,000	600,000	1,600,000	Depart ment Request
COLLECTION COST ON REVENUE	-	1,215,000	1,215,000	EXP Trend
PROFFESIONAL FEES CONDITION ON ASSESSMENT		700,000	700,000	Depart ment Request

AUDIT COMMITTEE MEMBERS	100,000	403,000	503,000	EXP Trend
TELEPHONE COSTS	596,414	291,983	888,397	EXP Trend
DATA CARDS: ACCESS COSTS	145,000	265,833	410,833	EXP Trend
UNFORESEEN DISASTER EXPENSES	100,000	5,700,000	5,800,000	Department Request Building Damaged by Hail
STREETLIGHTS	3,000,000	1,500,000	4,500,000	Department Request
BEKKERSDAL URBAN RENEWAL PROJECT	-	375,032	375,032	Roll-over
PROGRAMMES/PROJECTS (TOURISM INDABA)		230,000	230,000	Department Request
SPECIAL PROGRAMMES AND PROJECT(Go West)	3,000,000	3,374,000	6,374,000	HIV/AIDS GRANTS
NELSON MANDELA MEMORIAL	-	1,748,333	1,748,333	Income Received
BUILDINGS AND STRUCTURES	252,200	547,800	800,000	EXP Trend
LINK ROAD MAINTENANCE	1,000,000	1,365,407	2,365,407	Roll-over

24,796,090

- The other adjustment has been performed within the votes which didn't have any impact as it was reclassification within the votes.

- The Unforeseen Expenditure amount of R 5,800 Million has been included in the Adjustments Budget in terms of MFMA Section 29 (2) of such expenditure having to be corrected in the adjustments budget. The WRDM approved budget of 2013/2014 has an amount of R184, 382, million from own revenue. The threshold that has been set in terms of Municipal Budget and Reporting Regulations 72 (a) is five percent (5%). This represent an amount of R9, 219,000 million. The amount of R5, 800,000 does not exceed the threshold.
- The Office of the Executive Mayor has drastically reduced the approved amount of Programmes/Projects to accommodate service delivery of streetlights challenges within the region. An amount of R500 000 was diverted to the Streetlights which increased the initial three million (R3 000 000). The increase became R1 500 000 as a result of internal savings identified.
- The Go West additional funding of R3 374 000 has been accommodated in the savings. Although an amount of R474 000 has not being paid to align with the Municipal Council resolution that WRDM must wait for the contributions from the Local Municipalities, the reality is that the WRDM as at 30 June 2014 during the Annual Financial Statements will have to raise a creditor. The creditor will fall outside the thirty (30) days compliance of MFMA Section 65 (2) (e). The municipal council might consider the payment, whilst pursuing the contributions by the local municipalities through the Executive Mayors' IGR Forum.

RECOMMENDATION THAT:

1. The adjusted consolidated operating and capital budget of the West Rand District Municipality together with WRDA Budget which is part of LED for the financial year 2013/2014, and indicative amounts for the two projected outer years of 2014/2015 and 2015/2016 be approved as contained in the following attached schedules:

Operating revenue by standard classification, reflected in Table B2;
 Operating expenditure standard classification, reflected in Table B2;
 Capital expenditure standard classification, reflected in Table B5;
 Capital funding by source, reflected in Table B5.

2. Cognizance be taken of the mid-year 2013/14 performance report.
3. The Service Delivery and Budget Implementation Plans be amended in order to capture the adjustments and be brought to the next Council Meeting for adoption.
4. The Adjustments Budget of 2013/2014 be submitted to the National and Provincial Treasuries.
5. Virements between votes be approved within the limits of the adjustments budget in (1) above.
6. Cognizance be taken of the mid-year budget and performance assessment, attached as Annexure to the report, as submitted to the Executive Mayor.
7. West Rand Developmental Agency (WRDA) expenditure must be supported by the transfer from IDC.
8. Section 80 Committee: Finance expressed its concerns regarding the financial sustainability of WRDM and WRDA and a special Lekgotla/Strategic Workshop be held during April 2014 in order to focus on the financial state of the Municipality.